Quebec Cobalt and Exploration Limited

(No Personal Liability)

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Twentieth Annual Report

For the Year Ended December 31, 1971

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)

Head Office: Suite 300,
600 Dorchester Blvd. W.,
Montreal 101, Quebec.

Executive Office:
67 Yonge Street,
Toronto, Ontario.

CAPITAL	Authorized: 3,500,000 shares $1.00 Par Value

OFFICERS

Robert D. Hoffman	*President*
Fred W. Thompson	*Vice-President*
B. A. Orr	*Vice-President*
B. A. Orr	*Secretary-Treasurer*

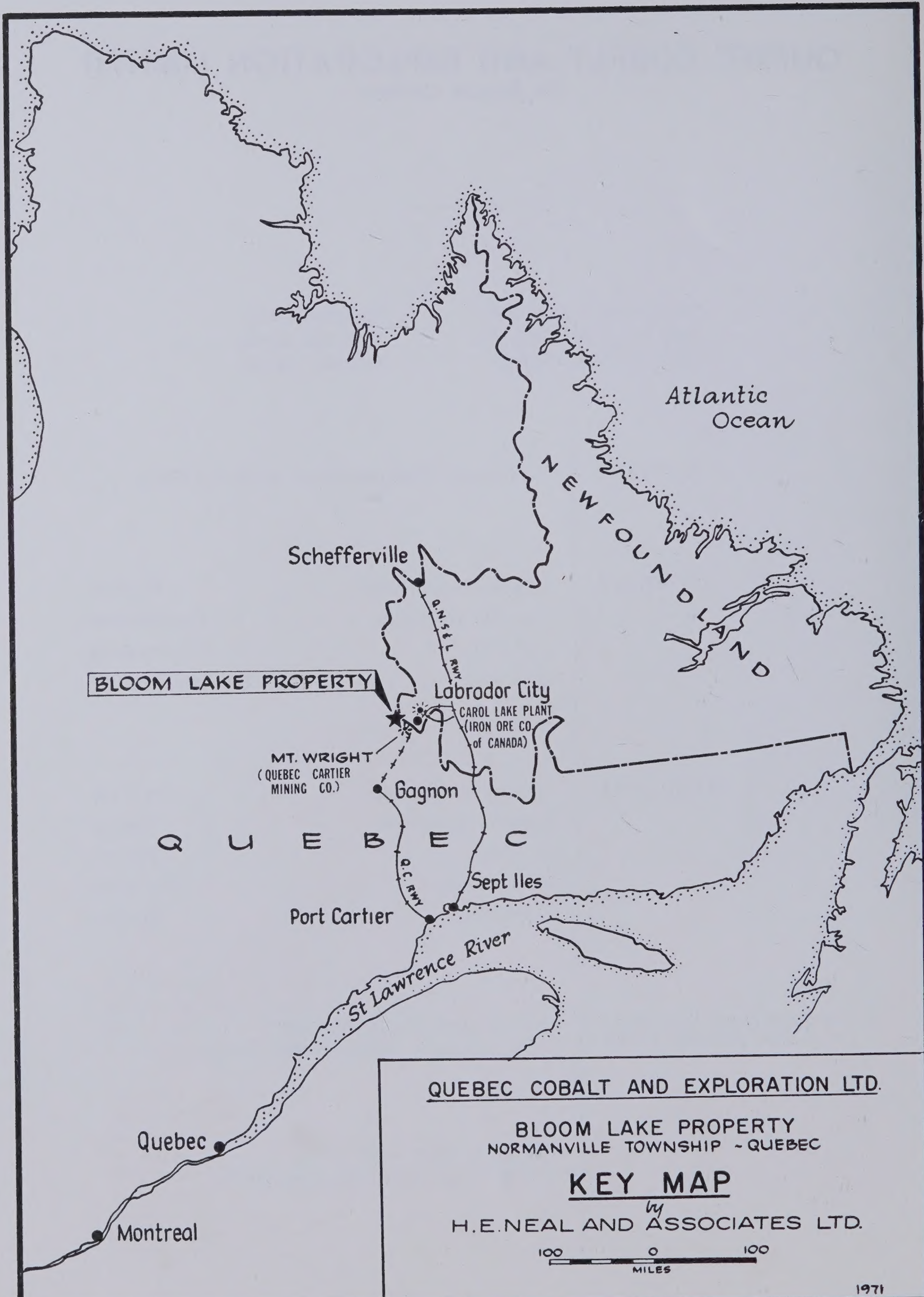
DIRECTORS

Robert D. Hoffman	New York
Fred W. Thompson	Toronto
B. A. Orr	Toronto
L. B. Norrie	New York
H. W. Baird	Toronto

TRANSFER AGENTS AND REGISTRARS

The Premier Trust Company
19 Richmond St. West, Toronto, Ontario

Guardian Trust Company
618 St. James Street, Montreal, Quebec


Atlantic
Ocean
NEWFOUNDLAND
Schefferville
Q.N.S.&L. RWY
BLOOM LAKE PROPERTY
Labrador City
CAROL LAKE PLANT
(IRON ORE CO.
of CANADA)
MT. WRIGHT
(QUEBEC CARTIER
MINING CO.)
Gagnon
QUEBEC
Q.C. RWY
Sept Iles
Port Cartier
St Lawrence River
Quebec
Montreal
QUEBEC COBALT AND EXPLORATION LTD.
BLOOM LAKE PROPERTY
NORMANVILLE TOWNSHIP ~ QUEBEC
KEY MAP
by
H.E.NEAL AND ASSOCIATES LTD.
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MILES
1971

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)

Directors' Report to Shareholders

MONTREAL, Quebec,
MARCH 15th, 1972.

TO THE SHAREHOLDERS:

Your Directors herewith submit a report of Operations and the Financial Statements of the Company for the fiscal year ended December 31, 1971, together with the Auditors' Report to Shareholders.

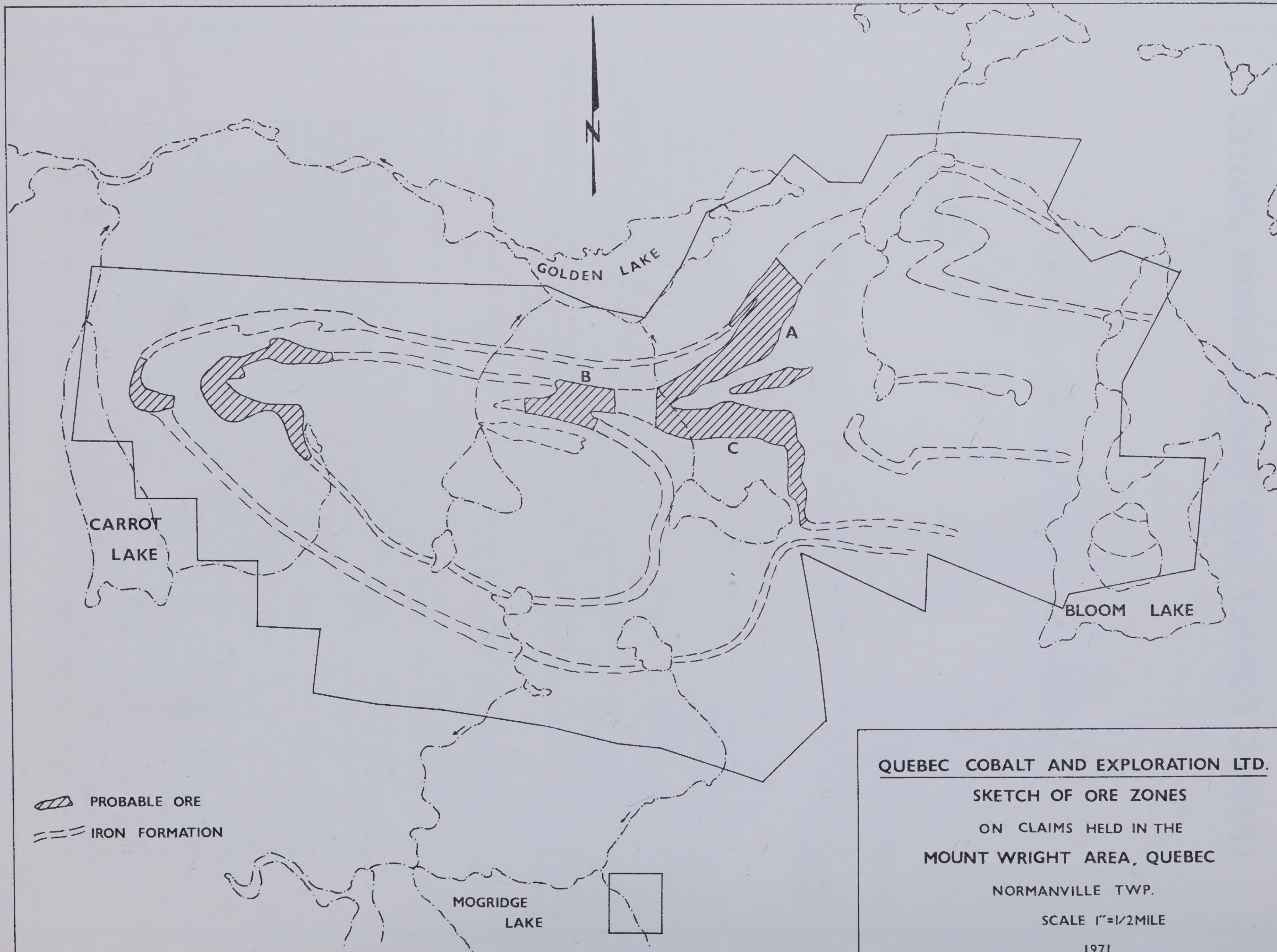
IRON PROPERTIES, MT. WRIGHT, QUEBEC

As the shareholders probably know, the Quebec Mt. Wright-Carol Lake Labrador area has been the scene of intensive development in the past few years. Quebec Cartier, a subsidiary of United States Steel Corporation, is extending its railroad from Gagnon to within a few miles of our property and is bringing its Mt. Wright property immediately adjoining our property into production scheduled for 1975 at a reported rate of 16-million tons per year of concentrates. In addition, to the east, the Iron Ore Company of Canada is increasing its production at its Carol Lake property from 10-million tons of pellets to 20-million tons of concentrates and pellets per year. A 25-mile highway has now been constructed from Labrador City to Hesse Lake. The centre of our property is within two and a half miles from this road. We no longer are confined to airplane transportation and have all year access to our property. We can now carry out an intensive plan of development more economically and expeditiously.

The purpose and success of our 1971 program may be more easily understood in the light of excerpts from our Annual Reports of 1968 and 1969.

The following is taken from the Seventeenth Annual Report for the year ended December 31, 1968, Report dated March 25th, 1969:

> "Originally your Company estimated a potential of one billion tons of crude, concentrating iron ore. Subsequently, Jones & Laughlin engineers developed more than half this tonnage through 20,000 feet of diamond drilling, geomagnetic work, and geologic mapping. Their figures were **147 million tons of proven, 56 million tons of possible iron ore concentrates, which at a 2.7 to 1 concentrating ratio is equivalent to 548 million tons of crude. Their stripping ratio was 1.1 tons waste** per ton of concentrate, that **is 0.4 ton of waste for** each ton of crude ore mined. All waste in bands thicker than twenty feet and within pit limits would be stripped and thus bypass the mill.
>
> Jones & Laughlin engineers stated that their Company **originally had only contemplated a production rate of three million tons per year of iron ore concentrate. Having readily developed reserves sufficient to maintain this rate of production for half a century, production from any additional reserves would have been so far off in the future as to make further current exploration expenditures economically impractical.** Consequently, many promising areas were not drilled or included in the possible ore. Even the main areas were only drilled from along the outcrops to prove these minimum requirements and were not tested for geologically indicated, possible continuations in covered areas. Our total reserve potential is almost an academic question inasmuch as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GOLDEN LAKE
A
B
C
CARROT LAKE
BLOOM LAKE
MOGRIDGE LAKE
PROBABLE ORE
IRON FORMATION
QUEBEC COBALT AND EXPLORATION LTD.
SKETCH OF ORE ZONES
ON CLAIMS HELD IN THE
MOUNT WRIGHT AREA, QUEBEC
NORMANVILLE TWP.
SCALE 1"=1/2MILE
1971

all available evidence points to the possibility of vastly increasing them through further drilling, perhaps even beyond our original estimates.

Of more immediate importance than our total reserve potential is the possibility of increasing the grade of reserves. A study of Jones & Laughlin data by your Geologist has revealed that areas favourable for substantial tonnages of higher grade iron ore were indicated, but not probed in sufficient degree and detail to change the status of our reserves. It is impossible to translate this geological appraisal into precise figures without considerable additional drilling. **However, a prediction that such drilling might develop sufficient higher grade tonnages to raise our overall ore grade to that of other production in the area** is not inconsistent with the present data."

The following is taken from the Eighteenth Annual Report for the year ended December 31, 1969, Report dated March 10th, 1970:

"During the past year the Company continued its re-examination of the records of the Company with regard to the exploration conducted by Jones & Laughlin Steel Corporation under the terms of the Lease which was terminated on October 1st 1968. An Engineer and Mining Geologist were engaged in this work continuously throughout the year assisted by your President and outside Geologists.

This geological and engineering work justified the feasibility of our conclusions of last year that **more diamond drilling work should be carried out at the west end of the property with the hope that additional tonnages of higher grade, easy milling ore would be revealed.** There is knowledgeable outside opinion that there **is ample room for very large tonnages of new ore in this west section, ore of a grade well above that reported by the Jones & Laughlin engineers at the east end of the property.**

Some diamond drilling will eventually have to be done **on the east end of the property to determine whether A and C zones are continuous in depth below the surface and the characteristics of the geologically favourable axial zone already probed** on its fringes by Jones & Laughlin. However, our chances for large tonnages of easy milling ore, **which might be of immediate interest** to very large consumers of iron ores **now appear to lie at the west end of the property toward Carrot Lake."**

During the year 1971, Quebec Cobalt and Exploration Limited carried out considerable development and exploration at its Mt. Wright iron ore property in Quebec. This consisted of 5,560 feet of diamond drilling, magnetometer surveys, gravity surveys and geological mapping. The exploration program was successful, increasing (1) the existing ore reserves materially, (2) showing that A and C zones were connected in depth (3) proved the grade of ore in the Carrot Lake area was higher than the A and C zones and also much lower in magnetite content.

OTHER PROPERTIES

Ontario

While no exploration work at the Kapkichi Nickel Mines Limited property optioned to Union Miniere Explorations & Mining Corporation (known as Umex) of Belgium, was done during the year 1971, the option is still in good standing.

GENERAL

In view of the potentiality of our Mt. Wright - Bloom Lake iron ore deposit in Quebec, we shall confine all our activities this coming year to furthering its development and have budgeted $250,000 for this purpose. There will be no outside exploration.

On behalf of the Board,

ROBERT D. HOFFMAN,
President.

QUEBEC COBALT AND

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Consolidated Balance Shee

(with comparative figur

ASSETS

	1971	1970
Current Assets		
Cash and term bank deposits	$ 15,207	$ 116,139
Accounts receivable	164	4,196
Income taxes recoverable	1,280	1,480
Due from associated company		4,000
	16,651	125,815
Securities		
Quoted shares and trust units at cost (quoted market value, 1971 — $567,490; 1970 — $602,212)	506,470	511,012
Other securities at cost less amounts written off	211,719	211,719
	718,189	722,731
Mining Claims		
Interest in mining claims in the Mount Wright Area, Quebec, held under development licenses, acquired for 1,000,000 shares of the company's capital stock issued at 3¢ per share and $1,001 cash	31,001	31,001
	$ 765,841	$ 879,547

AUDITOR

To the Shareholders of
Quebec Cobalt and Exploration Limited
(No Personal Liability)

We have examined the consolidated balance sheet of Quebec Cobalt and Exploration Limited (No Personal Liability) and its subsidiary company as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada
March 6, 1972

EXPLORATION LIMITED
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- *December 31, 1971*
December 31, 1970)

LIABILITIES

	1971	1970
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 38,171	$ 3,354
OTHER LIABILITIES		
Accrued pension liability (note 2)	115,800	106,400

SHAREHOLDERS' EQUITY

	1971	1970
CAPITAL STOCK		
Authorized and issued — 3,500,000 shares of $1 each	3,500,000	3,500,000
Less discount on shares	2,916,496	2,916,496
	583,504	583,504
RETAINED EARNINGS	28,366	186,289
	611,870	769,793

Approved by the Board:

FRED W. THOMPSON, Director.
H. W. BAIRD, Director.

	1971	1970
	$ 765,841	$ 879,547

EPORT

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, GUNN, HELLIWELL & CHRISTENSON,
Chartered Accountants.

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)
and its subsidiary company

Consolidated Statement of Income

Year ended December 31, 1971
(with comparative figures for 1970)

	1971	1970
REVENUE		
Dividends and other royalties received	$ 39,227	$ 41,489
Interest earned	3,331	8,450
Loss on oil well operations	(814)	(2,049)
	41,744	47,890
EXPENSES		
EXPLORATION		
Consultants' fees and expenses	23,476	
Geologist's salary and expenses		4,351
Prospector's salary		6,000
Diamond drilling	74,735	
Licenses and taxes	2,560	6,250
Fees in lieu of assessment work	13,420	
Travelling and other prospecting expenses	6,973	10,122
Assaying	3,279	
Geophysical survey	4,670	
Wages and camp operating expenses	9,933	
Air transportation	2,002	
Clerical salary	1,200	
Mining claims written off		1,200
	142,248	27,923
ADMINISTRATIVE AND GENERAL		
Office services	9,210	10,745
Shareholders' report and meetings	2,120	4,045
Directors' fees	800	304
Directors' expenses		298
Share transfer expenses	1,559	939
Legal and audit expense	1,450	1,600
Executive salaries	32,300	8,610
Provision for pension costs	9,400	9,400
Other administrative and general expenses	2,726	1,465
	59,565	37,406
	201,813	65,329
Loss before income taxes and extraordinary items	160,069	17,439
Income taxes (note 3)	3,467	3,600
Loss before extraordinary items	163,536	21,039
Extraordinary items		
Profit on sale of securities	5,613	
Loss on freeing of Canadian dollar		(6,277)
Loss for the year	$ 157,923	$ 27,316

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)
and its subsidiary company

Consolidated Statement of Retained Earnings

Year ended December 31, 1971
(with comparative figures for 1970)

	1971	1970
Balance at beginning of year	$ 186,289	$ 213,605
Loss for the year	157,923	27,316
Balance at end of year	$ 28,366	$ 186,289

Consolidated Statement of Source and Application of Funds

Year ended December 31, 1971
(with comparative figures for 1970)

	1971	1970
SOURCE OF FUNDS		
Sale of securities (less $5,613 profit included in determining loss for the year)	$ 4,542	
Special refundable tax		$ 3,920
	4,542	3,920
APPLICATION OF FUNDS		
Loss for the year	157,923	27,316
Deduct items not requiring current outlay		
Provision for pension costs	9,400	9,400
Mining claims written off		1,200
	9,400	10,600
	148,523	16,716
Decrease in working capital position	143,981	12,796
Working capital at beginning of year	122,461	135,257
Working capital (deficiency) at end of year	$ (21,520)	$ 122,461

QUEBEC COBALT AND EXPLORATION LIMITED

(No Personal Liability)
and its subsidiary company

Notes to Consolidated Financial Statements

December 31, 1971

1. BASIS OF CONSOLIDATION

The consolidated financial statements included the accounts of a wholly owned subsidiary company which holds U.S. oil interests.

2. PENSION COSTS

The company has agreed to pay pensions to certain employees upon their retirement. The pension cost related to past services of employees and not provided for at December 31, 1971 is estimated to amount to approximately $4,000. This cost is being charged to income over the estimated terms of service of the employees.

3. INCOME TAXES

The provision for income taxes represents U.S. withholding tax on dividends and royalties.